Wisconsin Department of Revenue
Division of Research and Policy
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THE WISCONSIN INDIVIDUAL INCOME TAX

A. INTRODUCTION

Wisconsin imposes an individual income tax at rates ranging from 4.6% to 6.75% on a tax base that conforms closely to the base for the federal personal income tax. First imposed in 1911 and the first successful income tax in the United States, Wisconsin's individual income tax is the state's largest tax source, generating $5,277 million, or nearly 50% of state general purpose revenue taxes in FY04.

B. CALCULATION OF THE WISCONSIN INCOME TAX

Income tax liability is computed by:

- totaling up the various kinds of income subject to tax,
- reducing total income by deductions or exemptions permitted under the tax law,
- applying the tax rates to the remaining income, and
- reducing tax by any credits allowed against tax liability.

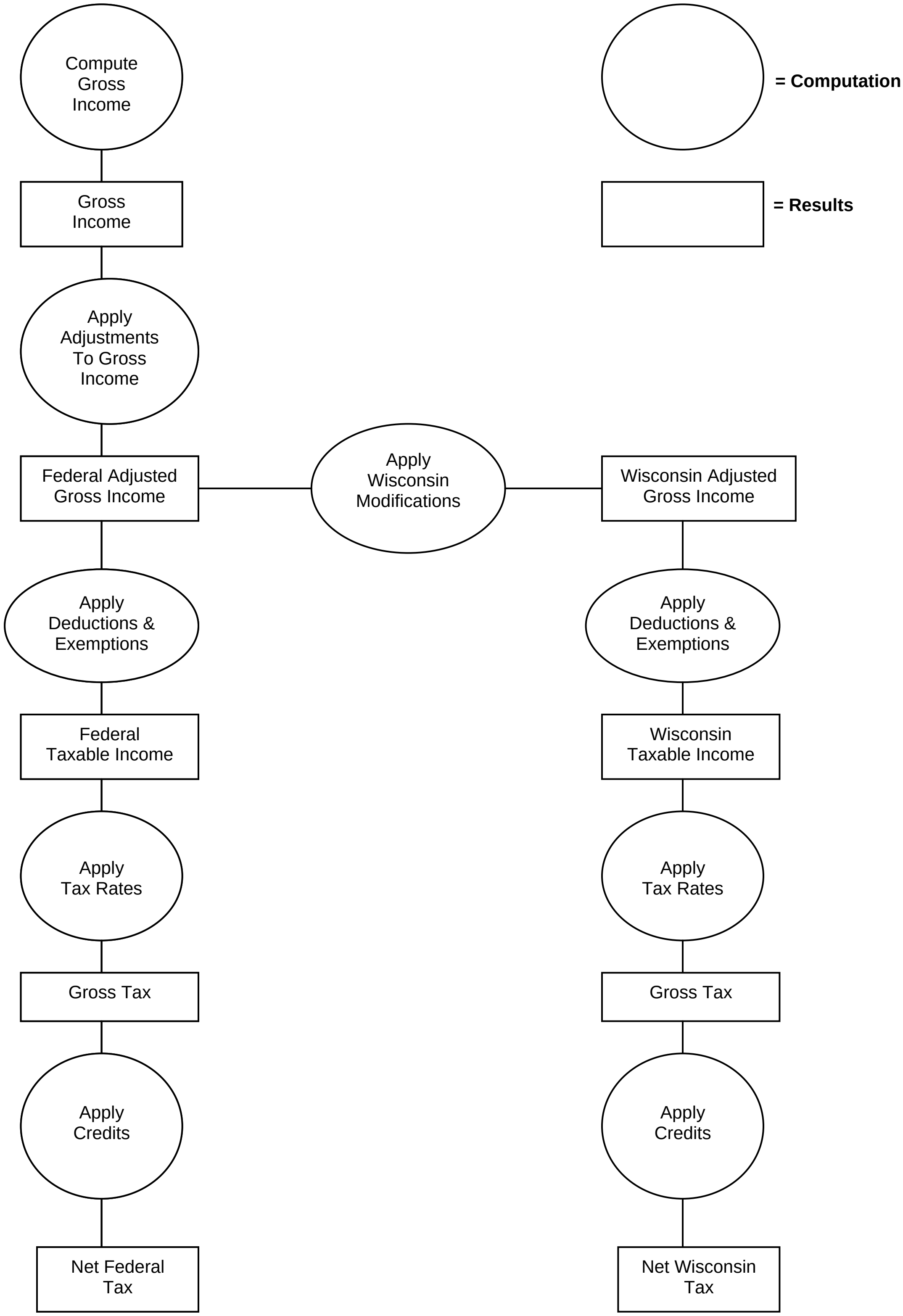
The chart on page two shows the steps used in calculating federal and Wisconsin income tax. Because the base for the state tax, Wisconsin adjusted gross income (WAGI), conforms closely to the federal tax base, federal adjusted gross income (FAGI), the Wisconsin tax calculation branches off from the federal computation.

The first step in the federal tax calculation is determining gross income, which equals the sum of all types of income subject to tax – such as wages and salaries, net business and farm earnings (or losses), interest and dividends, rents, capital gains, retirement income and alimony received. Next adjustments are subtracted from gross income to yield FAGI. Adjustments include contributions to individual retirement accounts and retirement plans of self-employed persons, health insurance premiums paid by the self-employed, one-half of the self-employment tax paid for social security and Medicare coverage, a portion of student loan interest, and alimony paid that is included in the income of the recipient.

FAGI is the starting point of the Wisconsin tax calculation, and modifications, both additions and subtractions, are made to this amount to determine WAGI. Additions are types of income that are exempt from federal tax but subject to state tax; subtractions include income taxable under federal law but exempted by Wisconsin and certain expenses for which Wisconsin allows a deduction. These modifications are described in the next section.

Once adjusted gross income has been determined, the computation of federal and Wisconsin income tax proceed on nearly identical tracks. Standard deductions and personal exemptions, and itemized deductions in the case of the federal income tax, are subtracted from AGI to yield taxable income. Tax rates applied to taxable income to determine gross tax. Finally, credits are subtracted from gross tax to yield net tax liability. Under both federal and Wisconsin law, some taxpayers who are able to reduce their net tax to $0 under this calculation are subject to an alternative minimum tax.

HOW FEDERAL AND WISCONSIN INCOME TAXES ARE COMPUTED



C. DESCRIPTION OF THE WISCONSIN INCOME TAX

1. Tax Base – Modifications to Federal Adjusted Gross Income

The base for the state income tax, Wisconsin adjusted gross income, is FAGI, modified to add income exempt from federal tax but subject to state tax, and to subtract income taxed federally but not by Wisconsin and to subtract expenses allowed by Wisconsin but not permitted under federal law. Additions include:

- State and municipal bond interest, which may not be taxed by the federal government but may be taxed by state and local governments. Wisconsin does not tax some state and municipal bond interest, so these amounts are not added back to FAGI. These include interest on bonds issued by municipal housing, community development and redevelopment authorities; local exposition, cultural and sports stadium districts; the Wisconsin Housing Finance Authority; and the governments of Puerto Rico, Guam and the Virgin Islands. In addition, interest on Wisconsin higher education bonds and certain bonds issued by the Wisconsin Housing and Economic Development Authority and public housing agencies located outside Wisconsin are exempt from the state tax.

- Capital losses in excess of $500. Under federal law, a taxpayer may use up to $3,000 in capital losses to offset ordinary income; Wisconsin limits this offset to $500.

- Farm losses for persons not actively engaged in farming when income exceeds certain amounts. Farm losses may be deducted fully when nonfarm WAGI does not exceed $55,000 ($27,500 for married persons filing separately). At higher incomes, the amount of farm losses is reduced as income rises, and no losses are allowed when nonfarm WAGI exceeds $600,000 ($300,000 for married persons filing separately).

- Federal net operating loss carryovers, when these carryovers are different from carryovers for Wisconsin purposes.

- Lump-sum distributions.

- Excess distributions from a passive foreign investment company.

- Farmland preservation, farmland tax relief, development zone and manufacturer's sales tax credits allowed under Wisconsin law. These credits are allowed for business expenses that are deducted in determining net business earnings included in FAGI. They are added back to income so that the taxpayer is not allowed both a deduction and a credit for the same expenses.

Subtractions from FAGI in the determination of WAGI include:

- 60% of capital gains on assets held for more than one year. These gains are fully included in federal taxable income, though long-term gains are taxed at lower rates than ordinary income.

- Interest on U.S. government bonds, which the federal government may, but states may not tax.

- Railroad retirement benefits, railroad unemployment insurance and sickness benefits, which are taxable under federal law, but which states are not permitted to tax.

- Pensions received by persons who were members of or retired from Milwaukee city and county retirement funds, the state teachers' retirement fund and the civil service retirement system prior to January 1, 1964. Veterans' pensions also are exempt from Wisconsin income tax and subtracted in determining WAGI.

- A portion of social security benefits that are taxable for federal purposes. Up to 85% of social security benefits are subject to federal tax, but Wisconsin limits the amount taxed to 50% of those benefits.

- Active duty military pay received by a member of a reserve component of the armed forces, including pay for partial mobilization, for presidential selective reserve call-up, and for special state service. Persons who take this exemption may not claim the armed forces tax credit also provided under state law; this credit is for up to $200 of military income for services performed while stationed outside the United States.

- A portion of unemployment compensation, which is fully taxable under federal law but taxed by Wisconsin only when income exceeds $18,000 for married couples and $12,000 for most other filers.

- Disability income for certain persons younger than the mandatory retirement age, or age 65, who were permanently and totally disabled when they retired.

- Fifty percent of health insurance premiums paid by employed persons whose employer does not contribute to their health insurance. Wisconsin allows a deduction for 100% of the premiums paid by the self-employed, to the extent those premiums are not deductible for federal purposes. Beginning in 2003, these premiums are fully deductible under federal law – previously, only a portion were deductible – so no additional deduction will be allowed for Wisconsin.

- Premiums paid for long-term care insurance.

- Tuition payments, up to $3,000 per student, to post-secondary institutions in Wisconsin and to schools in Minnesota covered under Minnesota-Wisconsin tuition reciprocity. A deduction for tuition and other education expenses also is allowed under federal law, but Wisconsin does not allow this deduction since it provides its own.

- Contributions to and distributions from Wisconsin's EdVest College Savings Program that are included in FAGI.

- Adoption expenses of up to $5,000 in the year the final court order of adoption is entered, for expenses incurred that year and the two previous years.

- Travel expenses, lodging expenses and lost wages incurred by a person who, while living, donates one or more of his or her human organs to another human being for human organ transplantation. The expenses and wages are deducted from FAGI in the calculation of WAGI.

- Gain from the sale of business or farming assets to a related person.

- Settlements received or gain on assets recovered due to persecution by Nazi Germany or any Axis regime from 1933 to 1945. Subsequent to Wisconsin's enactment of this subtraction, a similar exemption has been created in federal law.

- Wisconsin net operating loss carryforwards, when these amounts are different from the federal net operating loss carryover.

- Farm loss carryovers for persons subject to the Wisconsin farm loss limits.

- State income tax refunds. In the federal tax calculation, persons who claim an itemized deduction for state income taxes paid must add back any refund received so that the federal deduction is allowed only for net tax liability. Since Wisconsin does not allow a deduction for its own taxes, it does not require its income tax refunds to be added back to income.

2. Calculation of Taxable Income – Standard Deduction and Personal Exemptions

A standard deduction and personal exemptions are subtracted from WAGI to yield Wisconsin taxable income, the amount to which tax rates are applied.

The Wisconsin standard deduction is a sliding scale deduction, equal to a maximum when income is below a specified level and phased down to $0 as income increases. For instance, in 2005, the deduction for single persons is $8,170 when WAGI is less than $11,770, and it declines to $0 as income rises from $11,770 to $79,853. The deduction parameters for each of Wisconsin's filing statuses are shown in Table 1; the maximum deduction and phase-out range are indexed annually for inflation.

TABLE 1
WISCONSIN STANDARD DEDUCTIONS, 2005

Filing Status	Maximum Deduction	Phase-Out Range	Phase-Out Rate
Single	$8,170	$11,770 – $79,853	12%
Head of Household	$10,550	$11,770 - $34,404*	22.515%
Married Filing Jointly	$14,710	$16,520 - $90,895	19.778%
Married Filing Separately	$6,990	$7,850 - $43,192	19.778%

* Income at which the head of household deduction equals the deduction for single filers. Above this income level, the deduction for heads of households is the same as that for single persons.

Unlike federal law, Wisconsin does not allow itemized deductions; instead it provides an itemized deductions credit, discussed below, equal to 5% of certain deductions in excess of the standard deduction.

WAGI is also reduced by a personal exemption equal to $700 for each tax filer, spouse and dependent. There is an additional exemption of $250 for each tax filer and spouse age 65 or older.

3. Tax Rates and Brackets

Statutory tax rates are applied to Wisconsin taxable income to yield gross tax liability. As Table 2 shows, Wisconsin imposes a series of graduated tax rates, ranging from 4.6% to 6.75%. The top rate applies only to filers with substantial amounts of income – in 2005, income exceeding $132,580 for single persons and $176,770 for married couples filing jointly.

TABLE 2
WISCONSIN TAX RATES AND BRACKETS, 2005

	Taxable Income Brackets		
Tax Rate	Single	Married – Joint	Married – Separate
4.60%	$0 - $8,840	$0 - $11,780	$0 - $5,890
6.15%	$8,841 - $17,680	$11,781 - $23,570	$5,891 - $11,780
6.50%	$17,681 - $132,580	$23,571 - $176,770	$11,781 - $88,390
6.75%	More than $132,580	More than $176,770	More than $88,390

4. Tax Credits

Gross tax is reduced by nonrefundable credits to produce net income tax liability. These credits are nonrefundable in that they are limited to the amount of income tax otherwise due – they cannot be used to reduce tax to less than $0. They include:

- The itemized deductions credit, equal to 5% of the amount by which certain federal itemized deductions exceed the standard deduction. Deductions allowed for the credit are those for medical expenses, mortgage interest (limited to a primary residence located in Wisconsin), investment interest on securities the income from which is subject to Wisconsin tax, and charitable contributions.

- The school property tax credit, equal to 12% of the first $2,500 of property taxes or rent constituting property taxes, for a maximum credit of $300. Rent constituting property taxes equals 20% of rent if heat is included in rent, and 25% if heat is not included.

- The working families credit, which eliminated tax liability below $18,000 for married couples filing jointly and $9,000 for other tax filers and which is phased out over the next $1,000 of income above these amounts.

- The married couple credit for couples when both spouses are working, equal to 3% of the earnings of the lower earning spouse, but not more than $16,000, resulting in a maximum credit of $480.

- The armed forces member tax credit for military income earned outside the United States, equal to the amount of those earnings, but no more than $200. This credit may not be claimed by those members of a reserve component of the armed forces who take the active duty military pay exemption, which includes pay for partial mobilization, for presidential selective reserve call-up and for special state service.

- Historic rehabilitation credits, including a supplement to the federal historic rehabilitation credit equal to 5% of qualifying expenditures under the federal Internal Revenue Code and a state historic rehabilitation credit equal to 25% of qualified expenditures to substantially rehabilitate certified historic buildings.

- A credit for sales taxes used to purchase fuel and electricity used in manufacturing was repealed in 2003 and will be replaced with a sales tax exemption, effective January 1, 2006. Businesses with no more than $25,000 of unused credits from prior years may claim up to half of those carryforward credits in each of tax years 2006 and 2007. For businesses with more than $25,000 of unused credits, the carryforward is disallowed, but the businesses may deduct, over two years, the amount that was added back to income when the credits were claimed. In addition, there is a new credit for qualifying manufacturers equal to the unused manufacturers' sales tax credit that was disallowed. This credit is amortized over 15 years, beginning in 2008, with a 15-year carryforward for unused credits. Manufacturer's qualify by satisfying job retention or investment tests.

- Jobs, environmental remediation and investment credits for business activity in development, development opportunity, or enterprise development zones. These zones are authorized by state law and businesses must be certified by the Department of Commerce in order to be eligible for the credits. The jobs credit is equal to up to $8,000 in wages paid for each full-time job created or retained and filled by a member of a target group and $6,000 for each full-time job created or retained and filled by another person. Target group members include residents of an empowerment zone or enterprise community designated by the federal government, persons employed in unsubsidized or trial jobs under the Wisconsin works program, any person qualifying for the Wisconsin Works health plan or child assistance, and dislocated workers. The environmental remediation credit is allowed for up to 50% of amounts expended for remediation. The investment credit, limited to taxpayers in a development opportunity zone, equals 2.5% of the cost of depreciable tangible personal property (1.75% if the property has been expensed under Section 179 of the Internal Revenue Code).

- A credit for income taxes paid to other states on wages or other earnings in those states. No credit is allowed for states with which Wisconsin has reciprocity, that is, agreements under which each state agrees not to tax the wages earned within its borders by residents of the other state. Wisconsin has reciprocity agreements with Illinois, Indiana, Kentucky, Michigan and Minnesota. Because the number of Wisconsin residents working in Illinois and Minnesota is substantially higher than the number of residents of those states working in Wisconsin, Wisconsin annually makes a payment to those states to compensate them for the net revenue loss they incur as a result of reciprocity. The payment to Minnesota includes interest.

In addition to nonrefundable tax credits, Wisconsin also offers refundable credits, which are paid to claimants in the form of a tax refund check when the amount of the credit exceeds tax otherwise due. These credits, essentially subsidies provided to particular types of claimants through the tax system, are:

- The Homestead credit, which equals up to 80% of property taxes or rent constituting property taxes when household income does not exceed $8,000. Maximum property taxes allowable under the credit are $1,450, so the maximum credit is $1,160. The credit is phased out as household income rises from $8,000 to $24,500. Rent constituting property taxes equals 20% of rent when heat is included in rent and 25% of rent when heat is not included.

- The earned income tax credit (EITC), which is calculated as a percentage of the federal earned income tax credit depending on family size: 4% for persons with one child, 14% for persons with two children and 43% for persons with three or more children. In 2004, the federal credit for persons with one child is equal to 34% of earnings up to $7,660 for a maximum credit of $2,604. For single persons, this credit is phased out as the greater of FAGI or earnings rises from $14,040 to $30,338; for married couples, the phase-out range is $15,040 to $31,338. For persons with two or more children, the federal credit is 40% of earnings up to $10,750, for a maximum credit of $4,300. The phase-out ranges are $14,040 to $34,458 for single persons and $15,040 to $35,458 for married couples filing jointly. Thus, the maximum Wisconsin credits in 2004 are $104 for persons with one child, $602 for persons with two children and $1,849 for persons with three or more children.

- The farmland preservation credit for owners of farmland that is zoned exclusively for agriculture use or covered under a farmland preservation agreement with the state. The farmland must consist of at least 35 acres and produce at least $6,000 in gross receipts in the year for which the credit was claimed or $18,000 in that year and the two prior years. The gross receipts requirements are waived for farmland enrolled in the federal Conservation Reserve Program. The credit is calculated by determining excessive property taxes on land and improvements, which is the amount of property taxes less a portion of household income in excess of $5,000 (ranging from 7% of household income between $5,000 and $10,000 to 37% of household income in excess of $30,000). Excessive property tax is limited to $6,000 and the potential credit is equal to 90% of the first $2,000 of excessive property taxes, 70% of the next $2,000 and 50% of the remaining $2,000, for a maximum potential credit of $4,200. The amount of credit actually received is 70%, 80%, 95% or 100% of the potential amount, depending on whether the claimant participates through zoning or a contract and depending on the action taken on a farmland preservation plan or zoning by the county or municipality in which the farmland is located. The minimum credit is 10% of excessive property tax eligible for the credit.

- The farmland tax relief credit equal to a percentage, determined by the Department of Revenue, of the first $10,000 of property taxes on farmland exclusive of improvements, with a maximum credit of $1,500. The credit percentage is established so that total annual credits for individual and corporate farm owners equal $15 million; the percentage for tax year 2004 is 15%.

These refundable credits are described in greater detail in separate background papers.

5. Minimum Tax

Wisconsin imposes an alternative minimum tax on taxpayers who are able to reduce substantially their regular income tax liability through the use of deductions or credits. The alternative minimum tax equals 6.5% of alternative minimum taxable income above the applicable exemption amount ($35,750 if single, $49,000 if married filing a joint return and $24,500 if married filing a separate return).

D. HISTORY OF THE WISCONSIN INDIVIDUAL INCOME TAX

1. Tax Rates and Brackets

Wisconsin's income tax was enacted in 1911 and is the oldest successful income tax law in the nation, preceding the federal tax by two years. Its original purpose was to tax the value of intangibles, such as stocks, bonds and money, which escaped property taxation because of assessment difficulties. Intangible property was exempted from the property tax when the income tax was created.

Until 1933, income taxes were assessed by the state Tax Commission through regional assessors of income on the basis of information submitted by the taxpayer. Local treasurers collected the tax until 1926 and county treasurers served as collectors from 1926 to 1933; then the state assumed collection responsibilities. Self-assessment of income taxes was also introduced in 1933.

The original tax imposed 13 rates, ranging from 1% to 6%, and each of the first 12 brackets were $1,000 wide; the top rate was imposed on taxable income in excess of $12,000. These rates were unchanged until 1932, when rates greater than 1.5% were increased; the top 7% rate was applied to taxable income in excess of $12,000. Further rate changes, mostly increases, or bracket additions occurred in 1953, 1962, 1963, 1965, 1966, 1971 and 1972. From 1972 to 1978, there were 15 tax rates, ranging from 3.1% to 11.4%, and the top rate was imposed on income exceeding $14,000.

While regular tax rates were relatively stable prior to 1962, the state used surtaxes as high as 60% of the regular tax to raise additional revenues. Surtaxes were used to finance a variety of programs, including the Soldiers Cash Bonus after World War I, emergency unemployment relief during the Depression, teachers' retirement and state building projects. Since 1961, only one surtax has been imposed, in 1983.

Despite frequent rate increases and bracket additions, a basic structure, with brackets $1,000 wide, remained in place from 1911 to 1978, as shown in Table 3.

TABLE 3
WISCONSIN INDIVIDUAL INCOME TAX RATES AND BRACKETS, 1911 - 1978

	Tax Rates								
Tax Brackets	1911-1931	1932-1952	1953-1961	1962	1963-1964	1965	1966-1970	1971	1972-1978
$0 – 1,000	1.00%	1.00%	1.00%	2.00%	2.30%	2.50%	2.70%	2.80%	3.10%
$1,001 – 2,000	1.25	1.25	1.25	2.25	2.55	2.75	2.95	3.10	3.40
$2,001 – 3,000	1.50	1.50	1.50	2.50	2.80	3.00	3.20	3.30	3.60
$3,001 – 4,000	1.75	2.00	2.50	3.50	3.80	4.00	4.20	4.30	4.80
$4,001 – 5,000	2.00	2.50	3.00	4.00	4.30	4.50	4.70	4.90	5.40
$5,001 – 6,000	2.50	3.00	3.50	4.50	4.80	5.00	5.20	5.40	5.90
$6,001 – 7,000	3.00	3.50	4.00	5.00	5.30	5.50	5.70	5.90	6.50
$7,001 – 8,000	3.50	4.00	5.00	6.00	6.30	6.50	6.70	6.90	7.60
$8,001 – 9,000	4.00	4.50	5.50	6.50	6.80	7.00	7.20	7.50	8.20
$9,001 – 10,000	4.50	5.00	6.00	7.00	7.30	7.50	7.70	8.00	8.80
$10,001 – 11,000	5.00	5.50	6.50	7.50	7.80	8.00	8.20	8.50	9.30
$11,001 – 12,000	5.50	6.00	7.00	8.00	8.30	8.50	8.70	9.00	9.90
$12,001 – 13,000	6.00	7.00	7.50	8.50	8.80	9.00	9.20	9.50	10.50
$13,001 – 14,000	6.00	7.00	8.00	9.00	9.30	9.50	9.70	10.00	11.10
$14,001 – 15,000	6.00	7.00	8.50	9.50	9.80	10.00	10.00	10.40	11.40
More than $15,000	6.00	7.00	8.50	10.00	10.00	10.00	10.00	10.40	11.40

In 1979, the number of rates and brackets were cut in half, from 16 to eight, and the remaining brackets were substantially widened. Brackets were also indexed for inflation beginning in 1980 – though indexing was suspended from 1983 to 1985. Regular tax rates remained the same throughout the 1979-1985 period, as shown in Table 4 – though there was an additional 10% surtax in effect in 1983.

TABLE 4
WISCONSIN INDIVIDUAL INCOME TAX RATES AND BRACKETS, 1979 - 1985

Tax Rates	Tax Brackets			
	1979	1980	1981	1982 – 1985
3.4%	$0 – 3,000	$0 – 3,300	$0 – 3,600	$0 – 3,900
5.2	$3,001 – 6,000	$3,301 – 6,600	$3,601 – 7,200	$3,901 - $7,700
7.0	$6,001 – 9,000	$6,601 – 9,900	$7,201 – 10,900	$7,701 – 11,700
8.2	$9,001 – 12,000	$9,901 – 13,200	$10,901 – 14,500	$11,701 – 15,500
8.7	$12,001 – 15,000	$13,201 – 16,500	$14,501 – 18,100	$15,501 – 19,400
9.1	$15,001 – 20,000	$16,501 – 22,000	$18,101 – 24,100	$19,401 – 25,800
9.5	$20,001 – 40,000	$22,001 – 44,000	$24,101 – 48,200	$25,801 – 51,600
10.0	More than $40,000	More than $44,000	More than $48,200	More than $51,600

The number of rates and brackets were cut in half again, to four, in 1986, as part of a major tax reform/reduction act. Also in 1986, Wisconsin adopted joint filing by married couples. Previously, spouses could file a combined return, but they reported their income and calculated their tax separately. In 1987, the number of tax brackets and rates were reduced to three and tax rates were reduced; these brackets remained in effect through 1998 – they were not indexed for inflation – and tax rates were reduced again in 1998. Table 5 shows rates and brackets during this period.

TABLE 5
WISCONSIN INDIVIDUAL INCOME TAX RATES AND BRACKETS, 1986-1998

Tax Brackets			Tax Rates		
Single	Married – Joint	Married – Separate	1986	1987-1997	1998
$0 – 7,500	$0 – 10,000	$0 – 5,000	5.00%	4.90%	4.77%
$7,501 – 15,000	$10,001 – 20,000	$5,001 – 10,000	6.60	6.55	6.37
$15,001 – 30,000	$20,001 – 40,000	$10,001 – 20,000	7.50	6.93	6.77
More than $30,000	More than $40,000	More than $20,000	7.90	6.93	6.77

Tax brackets were again indexed for inflation in 1999; a fourth tax bracket was reinstated in 2000 and rates were reduced that year and in 2001. Rates now range from 4.6% to 6.75% and the top rate is imposed only on very high taxable incomes – exceeding $170,110 for married couples filing jointly and $127,580 for single persons in 2005. Tax rates and brackets for 1999 to 2005 are shown in Table 6 (the floor of the top bracket was lower in 2001 than in 2000 because of an error in statutes relating to indexing, which was corrected for tax year 2002).

TABLE 6
WISCONSIN INDIVIDUAL INCOME TAX RATES AND BRACKETS, 1999 - 2005

Tax Brackets			Tax Rates
Single	Married – Joint	Married – Separate	
1999			
$0 – 7,620	$0 – 10,160	$0 – 5,080	4.77%
$7,621 – 15,240	$10,161 – 20,320	$5,081 – 10,160	6.37
More than $15,240	More than $20,320	More than $10,160	6.77
2000			
$0 – 7,790	$0 – 10,390	$0 – 5,200	4.73%
$7,791 – 15,590	$10,391 – 20,780	$5,201 – 10,390	6.33
$15,591 – 116,890	$20,781 – 155,850	$10,391 – 77,930	6.55
More than $116,890	More than $155,850	More than $77,930	6.75
2001			
$0 – 8,060	$0 – 10,750	$0 – 5,380	4.60%
$8,061 – 16,130	$10,751 – 21,500	$5,381 – 10,750	6.15
$16,131 – 116,330	$21,501 – 155,100	$10,751 – 77,550	6.50
More than $116,330	More than $155,100	More than $77,550	6.75
2002			
$0 - $8,280	$0 - $11,040	$0 - $5,520	4.60%
$8,281 - $16,560	$11,041 - $22,080	$5,521 - $11,040	6.15
$16,561 - $124,200	$22,081 - $165,600	$11,041 - $82,800	6.50
More than $124,200	More than $165,600	More than $82,800	6.75
2003			
$0 - $8,430	$0 - $11,240	$0 - $5,620	4.60%
$8,431 - $16,860	$11,241 - $22,480	$5,621 - $11,240	6.15
$16,861 - $126,420	$22,481 - $168,560	$11,241 - $84,280	6.50
More than $126,420	More than $168,560	More than $84,280	6.75
2004			
$0 - $8,610	$0 - $11,480	$0 - $5,740	4.60%
$8,611 – $17,220	$11,481 - $22,960	$5,741 - $11,480	6.15
$17,221 - $129,150	$22,961 - $172,200	$11,481 - $86,100	6.50
More than $129,150	More than $172,200	More than $86,100	6.75
2005			
$0 - $8,840	$0 - $11,780	$0 - $5,890	4.60%
$8,841 - $17,680	$11,781 - $23,570	$5,891 - $11,780	6.15
$17,681 - $132,580	$23,571 - $176,770	$11,781 - $88,390	6.50
More than $132,580	More than $176,770	More than $88,390	6.75

2. Other Changes Prior to 1986

Wisconsin individual income tax law has seen changes other than those in rates and brackets throughout its history. In 1962, payroll withholding and quarterly declarations were introduced to create a pay-as-you-go tax system.

In 1965, the law was changed to conform the Wisconsin income tax to the federal Internal Revenue Code in many major respects, the major implication of which is imposing the Wisconsin tax on most income subject to federal tax. The 1965 federalization also provided that new federal tax provisions were automatically incorporated into Wisconsin law. Automatic adoption of federal law changes was eliminated in 1975. Although Wisconsin law is still based largely on federal law, the

Legislature annually determines whether federal law changes should apply for Wisconsin tax purposes.

Legislation enacted in 1979 eliminated the itemized deduction for taxes and provided a property tax/rent credit. A special 16% credit was also in effect to reflect a two-month withholding moratorium provided that year. Legislation enacted in 1981 created a 5% minimum tax, phased in the adoption of the federal exclusion for long-term capital gains, and allowed automatic adoption of federal depreciation rules.

Legislation in 1983 included: a 10% surtax for the 1983 tax year (a similar surtax for 1984 was repealed); a reduction in the property tax/rent credit from 12% to 10%; elimination of indexing of the tax brackets for tax years 1982 through 1985, but restoration of indexing of both brackets and the standard deduction for inflation in excess of 3% beginning in 1986; and enactment of nonrefundable earned income and child care credits.

As part of 1983 legislation relating to marital property reform, the use of joint tax returns was adopted for married persons effective for the 1986 tax year. Prior to 1986, married persons could file a combined tax return, but each spouse reported his or her income separately and was taxed separately. Under joint filing, married couples report their income and are taxed as a single unit.

3. Income Tax Reform and Reduction in the Late 1980s

Tax reform and reduction legislation in the 1985 session retained the joint return concept and created a married couple credit for couples with two working spouses, equal to 2.5% of the first $18,000 of earnings of the lower-earning spouse. This legislation also reduced rates, dropping the top rate from 10% to 7.9%, and repealed several tax exemptions and deductions to permit greater conformity with federal law. It increased the standard deductions and tied them to income, phasing out the deductions as income rose. The legislation also repealed itemized deductions, replacing them with a 5% itemized deductions credit. In addition, the property tax/rent credit was repealed, except for a one-time, 7.9% credit for 1986, and the child care and earned income credits enacted in 1983 were repealed.

The 1987 legislative session saw the adoption of federal tax changes brought about by the federal Tax Reform Act of 1986. The major exception was the state's retention of the 60% exclusion for long-term capital gains, which the federal government began to tax fully under the 1986 reform. In addition, the 1987 legislation repealed the indexing of tax brackets and reduced marginal tax rates. The property tax/rent credit, scheduled to expire after 1986, was restored with a new name, the school property tax credit. The rate for this credit was set at 6.9% for 1987 and 8.5% for 1988 and thereafter, and the maximum amount of property taxes or rent constituting property taxes that could be claimed for the credit was set at $2,000.

Legislation in the 1989-90 session provided a one-time addition to the school property tax credit of 6.5%, based on credits claimed on both 1987 and 1988 tax returns, and raised the ongoing rate for the credit from 8.5% to 10%. This legislation also created a refundable earned income tax credit calculated as a percentage of the federal earned income tax credit; the percentage varied by number of children. Other changes established a refundable farmland tax relief credit, and reduced the married couple credit to 2% on maximum eligible earnings of $15,000.

4. Changes During the 1990s

Wisconsin income tax law remained relatively stable during the first half of the 1990s, but substantial tax decreases were enacted at the end of the decade.

Legislation in 1993 decoupled the Wisconsin earned income credit and the treatment of social security benefits from federal provisions, and enacted a head of household standard deduction that increased the standard deduction for heads of households with income less than $25,000. The 1995-96 legislative session recoupled the Wisconsin earned income credit to the federal credit, created a deduction for adoption expenses, and enacted an exemption for certain income from viatical settlement contracts.

During the 1997-98 legislative session, income tax rates were reduced; tax brackets and the standard deduction were indexed for inflation beginning in 1999; and the working families tax credit, which eliminates tax liability for low income filers, was created. The Legislature also created deductions for college tuition, long-term care insurance expenses, and gains on the sale of farming and business assets to relatives; increased the married couple credit; reduced or eliminated the senior citizen credit for higher income persons; and changed the tax computation for nonresidents and part-year residents.

5. Tax Reductions for 2000 and 2001

The 1999-2000 Legislature enacted major revisions in the state individual income tax – the most significant state income tax changes since major reforms were adopted for 1986.

The maximum deductions and phase-out ranges for the sliding scale standard deduction were increased to the amounts they would have been if the deductions had been indexed for inflation since 1988, the last year they were increased. In addition, personal exemptions were created for each tax filer, spouse and dependent, with an additional exemption for each tax filer or spouse age 65 or older. These new exemptions replaced the dependent and elderly credits, which were repealed.

Tax rates were reduced across the board for 2000 and again for 2001, and a fourth tax rate and bracket for very high levels of taxable income were created (as shown in Table 6, above). The maximum amount of earnings on which the married couple credit is calculated was increased from $14,000 to $16,000, and miscellaneous deductions were disallowed in the calculation of the itemized deductions credit.

This legislation repealed the school property tax credit for 1999, using the revenues to fund partially a one-time, $700 million sales tax rebate. The credit was restored at a higher rate for tax year 2000 and thereafter in a special session of the legislature. Beginning in tax years 2000 and thereafter, the school property tax credit is equal to 12% of the first $2,500 of property taxes or rent equivalent.

The one-time sales tax rebate for 1999 was available to individuals who were full-year and part-year residents, and to nonresidents who could verify expenditures in the state during 1998. Individuals claimed as dependents on another filer's tax return (unless those dependents had Wisconsin adjusted gross income of $5,000 or more and had income tax liability in 1998) and individuals who were in prison at any time during tax year 1998 were not eligible to receive the rebate. Rebates were issued automatically except to nonresidents, who had to submit an application showing their Wisconsin expenditures in order to receive the rebate. The amount of the rebate ranged from $184 to $534, depending on Wisconsin adjusted gross income and filing status.

Other changes to the individual income tax structure taking effect in 2000 include a new credit for a portion of military pay received overseas, an extension of the current exclusion on employer-provided educational assistance, and an expansion of the exemption for contributions to the state's college savings programs.

6. Law Changes Subsequent to 2001

In 2003, Wisconsin adopted changes to the federal Internal Revenue Code (IRC) enacted in 2002, with two exceptions. First, Wisconsin did not adopt the bonus depreciation provisions of the federal Job Creation and Worker Assistance Act (JCWAA). Also, Wisconsin adopted the deduction for educators' classroom expenditures for tax year 2003, but not the retroactive deduction for 2002.

Also in 2003, Wisconsin enacted individual and corporate income tax exemptions for interest on bonds and notes issued by the Wisconsin Housing and Economic Development Authority (WHEDA) for multifamily and elderly housing projects. The same legislation repealed an exemption for bonds issued to fund loans for cultural and architectural landmarks.

In 2004, Wisconsin created an individual income tax exemption for active duty military pay for members of the armed forces reserves, including pay for partial mobilization, presidential selective reserve call-up, and for special state service. Other legislation provided a deduction from federal adjusted gross income (FAGI) in the calculation of Wisconsin adjusted gross income (WAGI) to an individual who donates one or more human organs. The deduction may be claimed for travel and lodging expenses and lost wages. Finally, the deduction for contributions made to an EdVest account was expanded to include contributions by a great-grandparent, aunt, or uncle of the beneficiary, and an income tax check-off for the breast cancer research program was created.

E. TAX STRUCTURES IN OTHER STATES

Forty-one states and the District of Columbia impose a general income tax, as shown in Table 7. Two states, New Hampshire and Tennessee, impose limited taxes on interest and dividends only; seven states have no individual income tax.

One of the 41 states with a general income tax calculates the tax as a percentage of federal tax liability – Rhode Island, where the tax is 25% of federal tax.

The remaining 40 states and the District of Columbia impose tax on a tax base that generally conforms to federal adjusted gross income (26 states including Wisconsin and the District of Columbia) or to federal taxable income (9 states), or that is defined by the state tax code without reference to federal law (5 states). States who start the tax calculation with federal adjusted gross income generally conform to the federal tax base; states starting the tax calculation with federal taxable income also pick up federal standard and itemized deductions and personal exemptions.

Graduated rates are imposed in 34 of these states, while six states have a single, flat rate. Wisconsin's top rate of 6.75% ranks 18th among these 40 states. The highest rates are found in Montana (11%), Vermont (9.5%) and California (9.3%). North Dakota imposes a 12% rate on taxpayers who file that state's long form and claim a deduction for federal income taxes; its top rate on short form filers is 5.54%. Oklahoma also has higher rates, up to 10%, on filers who claim a deduction for federal income taxes. Its top rate on other filers is 6.75%. If North Dakota's and Oklahoma's higher rates on those deducting federal income taxes are considered, Wisconsin's top rate ranks 20th.

TABLE 7
STATE INCOME TAX RATES AND TAX BASES, TAX YEAR 2004

State	Tax Rates	Tax Base
Alabama	2% - 5%	Own tax base
Alaska	No state individual income tax	
Arizona	2.87% - 5.04%	Federal adjusted gross income
Arkansas*	1% - 7%	Own tax base
California	1% - 9.3%	Federal adjusted gross income
Colorado	4.63%	Federal taxable income
Connecticut	3% - 5%	Federal adjusted gross income
Delaware	2.2% - 5.95%	Federal adjusted gross income
Florida	No state individual income tax	
Georgia	1% - 6%	Federal adjusted gross income
Hawaii	1.4% - 8.25%	Federal taxable income
Idaho	1.6% - 7.8%	Federal taxable income
Illinois	3%	Federal adjusted gross income
Indiana	3.4%	Federal adjusted gross income
Iowa	0.36% - 8.98%	Federal adjusted gross income
Kansas	3.5% – 6.45%	Federal adjusted gross income
Kentucky	2% - 6%	Federal adjusted gross income
Louisiana	2% - 6%	Federal adjusted gross income
Maine	2% - 8.5%	Federal adjusted gross income
Maryland	2% - 4.75%	Federal adjusted gross income
Massachusetts	5.3%	Federal adjusted gross income
Michigan	4%	Federal adjusted gross income
Minnesota	5.35% - 7.85%	Federal taxable income

TABLE 7 (continued)
STATE INCOME TAX RATES AND TAX BASES

State	Tax Rates	Tax Base
Mississippi	3% - 5%	Own tax base
Missouri	1.5% - 6%	Federal adjusted gross income
Montana	2% - 11%	Federal adjusted gross income
Nebraska	2.56% - 6.84%	Federal adjusted gross income
Nevada	No state individual income tax	
New Hampshire	5%	Interest and dividends only
New Jersey	1.4% - 6.37%	Own tax base
New Mexico	1.7% - 6.8%	Federal adjusted gross income
New York	4% - 7.70%	Federal adjusted gross income
North Carolina	6% - 8.25%	Federal taxable income
North Dakota*	2.1% - 5.54%	Federal taxable income
Ohio	0.743% - 7.5%	Federal adjusted gross income
Oklahoma*	0.5% - 6.75%	Federal adjusted gross income
Oregon	5% - 9%	Federal taxable income
Pennsylvania	3.07%	Own tax base
Rhode Island	25% of federal tax liability	
South Carolina	2.5% - 7%	Federal taxable income
South Dakota	No state individual income tax	
Tennessee	6%	Interest and dividends only
Texas	No state individual income tax	
Utah	2.3% - 7%	Federal taxable income
Vermont	3.6% - 9.5%	Federal taxable income
Virginia	2% - 5.75%	Federal adjusted gross income
Washington	No state individual income tax	
West Virginia	3% - 6.5%	Federal adjusted gross income
Wisconsin	4.6% - 6.75%	Federal adjusted gross income
Wyoming	No state individual income tax	

* Arkansas: A special table reduces tax payments for low-income taxpayers.
North Dakota: Rates for short form filers. Rates for long form filers, who alone may deduct federal income taxes, range from 2.67% to 12%.
Oklahoma: Rates for filers not deducting federal income taxes. Rates for filers deducting federal taxes range from 0.5% to 10%.

District of Columbia rates range from 5% to 9.5% with federal adjusted gross income as the starting point for the tax calculation.

Source: Federation of Tax Administrators

F. WISCONSIN INCOME AND TAXES BY INCOME CATEGORY

In tax year 2003, 2.7 million persons filed Wisconsin individual income tax returns or Homestead credit claims, as shown in Table 8. They reported adjusted gross income of $110 billion; average adjusted gross income per return was $40,654. More than 1.9 million tax filers had either regular tax or minimum tax liability totaling $4.9 billion; the average tax was $2,504. Total tax paid was 4.4% of adjusted gross income reported on tax returns.

About 54% of tax filers had income not exceeding $30,000, while nearly 40% had income between $30,000 and $100,000 and about 6% had income exceeding $100,000. The progressive nature of Wisconsin's income tax – that is, the increase in tax burden as income rises – is demonstrated by the distribution of tax burden by income. Filers with income less than $30,000 paid only 15% of the total tax, while those with income between $30,000 and $100,000 paid nearly 55% of the tax and those with incomes exceeding $100,000 paid 30% of the tax. The average tax rate, or tax as a percent of income, also demonstrates this progressivity. For the income categories shown in Table 8, the average tax rate was less than 1% of income until income exceeds $15,000 and the rate rose with income reaching 6.3% when income exceeds $500,000.

TABLE 8
WISCONSIN INCOME AND TAX BY INCOME CATEGORY, 2003

	Tax Filers		Adjusted Gross Income		Net Tax (including minimum tax)					
WAGI Category	Number	% of Total	Amount ($)	% of Total	Filers With Tax	% of Total Filers	Amount ($)	% of Total	Average ($)	Average Tax Rate
Less than $0	40,089	1.5%	-567,625,139	-0.5%	52	0.1%	43,513	0.0%	837	NM
$0 - 5,000	403,735	14.9%	737,251,441	0.7%	36,081	8.9%	2,744,262	0.1%	76	0.4%
$5,000 - 10,000	260,607	9.6%	1,927,499,101	1.8%	50,246	19.3%	5,609,359	0.1%	112	0.3%
$10,000 - 15,000	211,679	7.8%	2,633,373,650	2.4%	123,380	58.3%	22,111,956	0.5%	179	0.8%
$15,000 - 20,000	195,979	7.3%	3,425,016,333	3.1%	152,289	77.7%	54,063,091	1.1%	355	1.6%
$20,000 - 25,000	181,726	6.7%	4,082,057,237	3.7%	170,190	93.7%	98,728,057	2.0%	580	2.4%
$25,000 - 30,000	163,940	6.1%	4,503,120,821	4.1%	161,742	98.7%	138,818,306	2.9%	858	3.1%
$30,000 - 40,000	271,884	10.1%	9,457,568,052	8.6%	270,918	99.6%	348,284,394	7.2%	1,286	3.7%
$40,000 - 50,000	218,237	8.1%	9,786,547,790	8.9%	217,906	99.8%	396,084,845	8.2%	1,818	4.0%
$50,000 - 70,000	331,740	12.3%	19,695,744,102	17.9%	331,504	99.9%	866,537,249	17.9%	2,614	4.4%
$70,000 - 100,000	253,795	9.4%	20,933,077,144	19.1%	253,758	100.0%	1,013,983,933	20.9%	3,996	4.8%
$100,000 - 200,000	136,020	5.0%	17,479,683,223	15.9%	135,992	100.0%	930,544,675	19.2%	6,843	5.3%
$200,000 - 500,000	26,694	1.0%	7,703,438,096	7.0%	26,690	100.0%	460,119,905	9.5%	17,239	6.0%
$500,000 - 1,000,000	4,642	0.2%	3,134,063,640	2.9%	4,635	99.8%	197,018,209	4.1%	42,507	6.3%
$1,000,000 and over	1,949	0.1%	4,945,797,419	4.5%	1,947	99.9%	315,857,726	6.5%	162,228	6.4%
TOTAL	2,702,716	100.0%	109,876,612,910	100.0%	1,937,330	71.7%	4,850,549,480	100.0%	2,504	4.4%

Note: NM = not meaningful.